

How are Global Food Trade Patterns Shifting and What's Behind it All?



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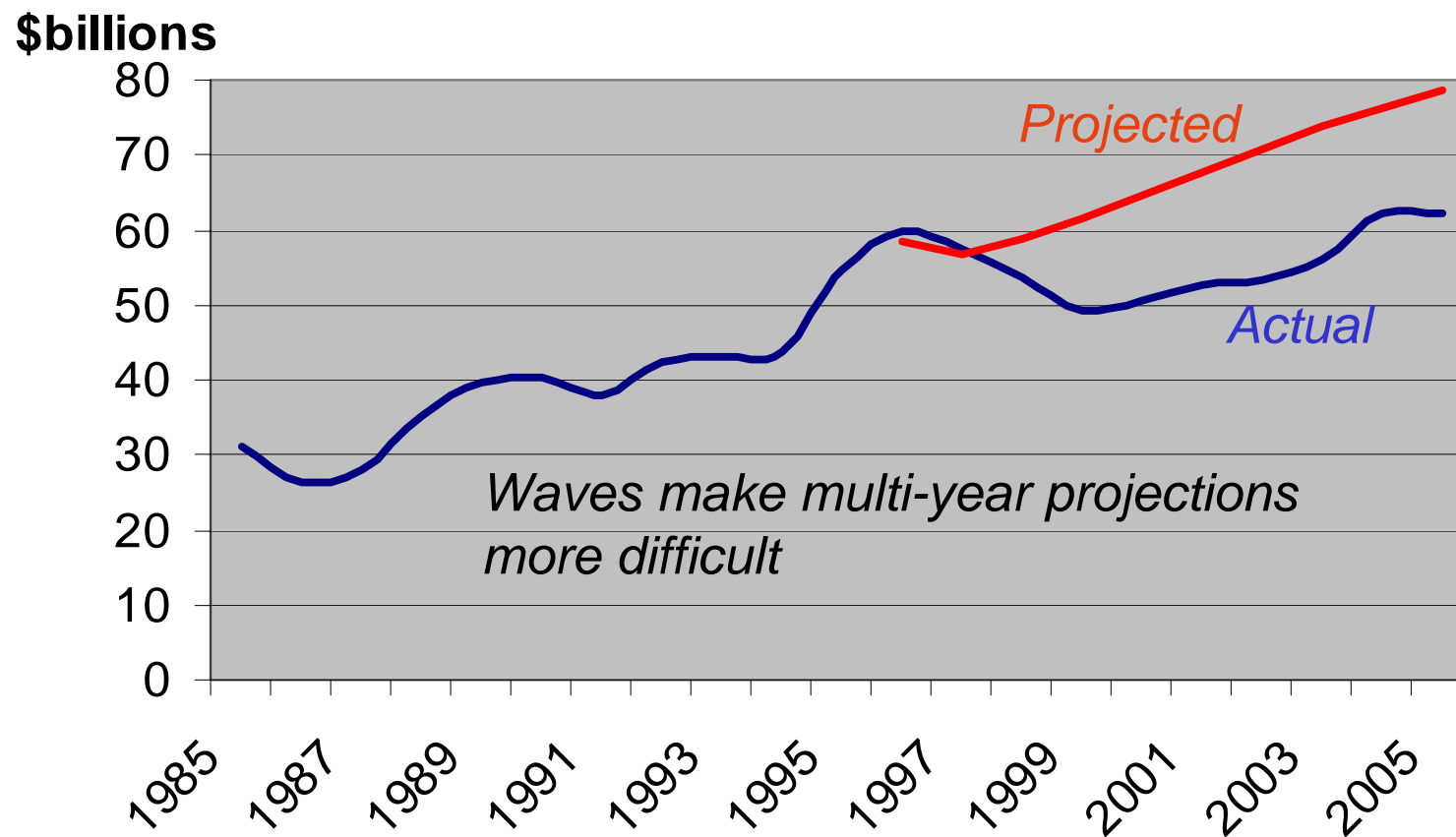
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A Trip Back to the Past: Projections From 1995

- Agricultural surplus expected to reach \$40 billion by 2005
Actual surplus was \$4.7 billion
- Exports over-projected by \$16 billion
Imports under-projected by \$19 billion
- High-value product exports to reach \$50 billion by 2005
Over-projected by \$12 billion

U.S. Exports Taking Place in “Waves”

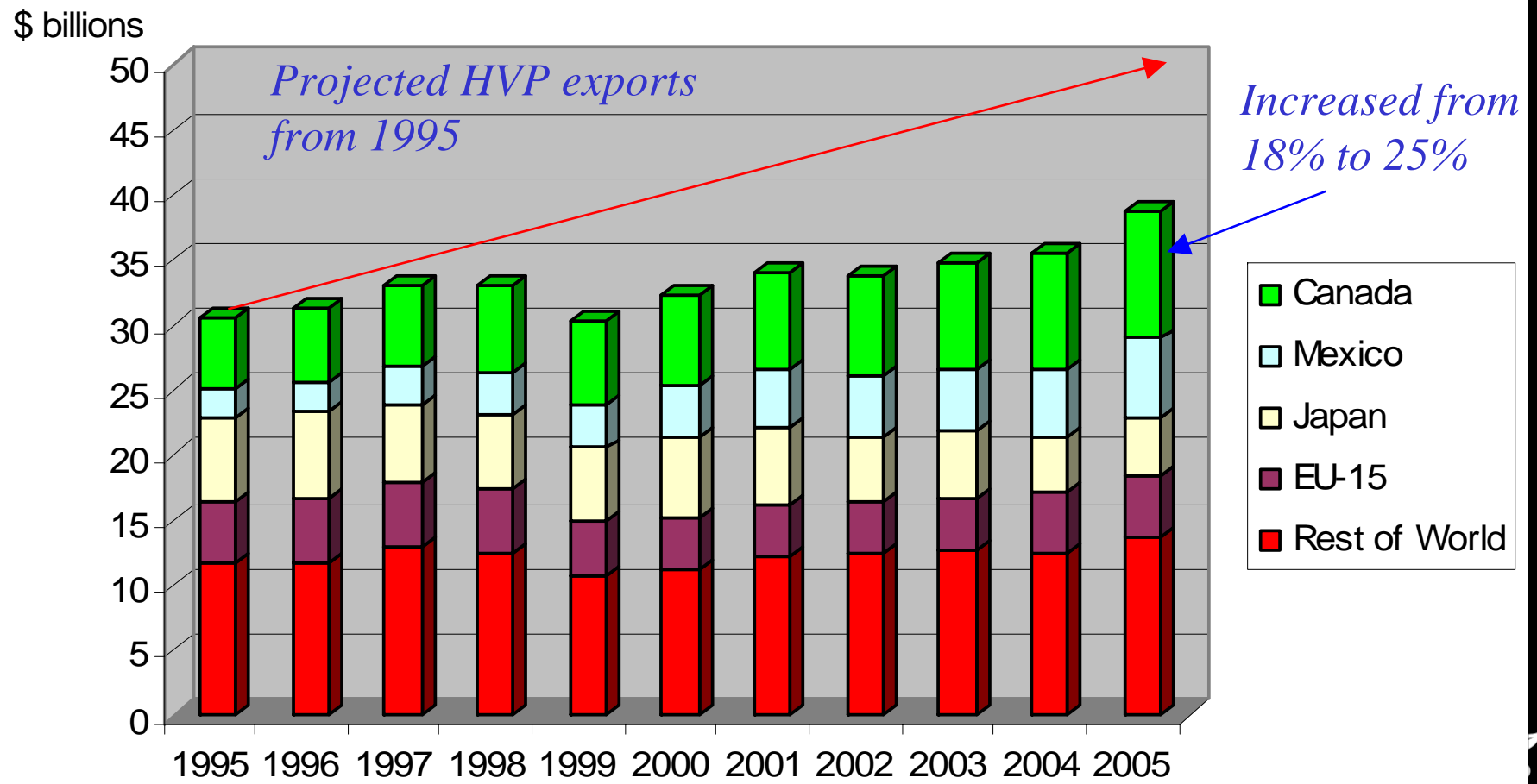




Why Waves and Lack of Continuity ?

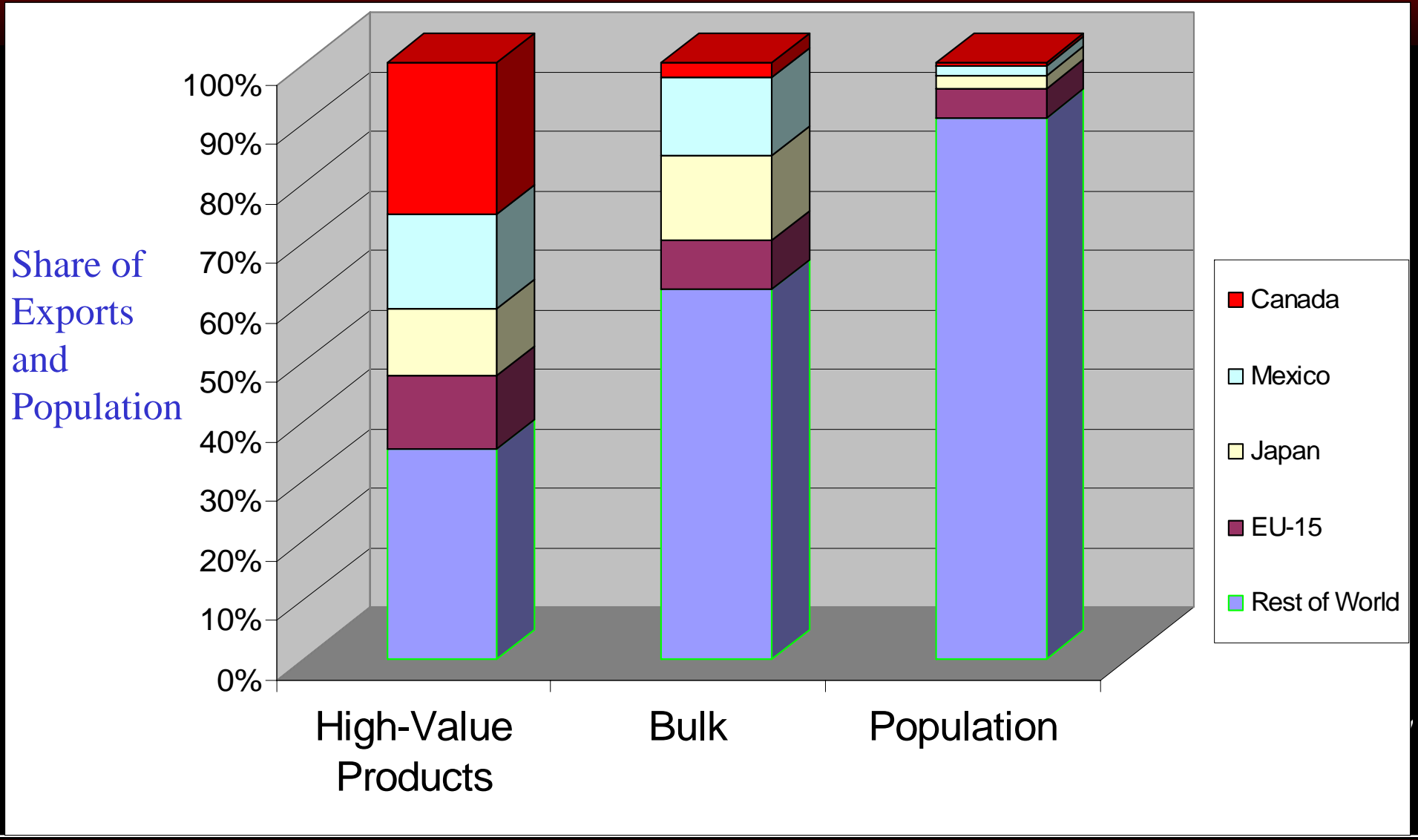
- Macroeconomic instability and exchange rates
- Trade is small proportion of global food consumption
a small change in foreign supply can lead to a large change in trade
- Commodity price variability and policy changes
- Lack of broad-based global growth for U.S. high value product exports

U.S. High-Value Exports Became More Dependent on Canada





U.S. High-Value Products Exported to Fewer People



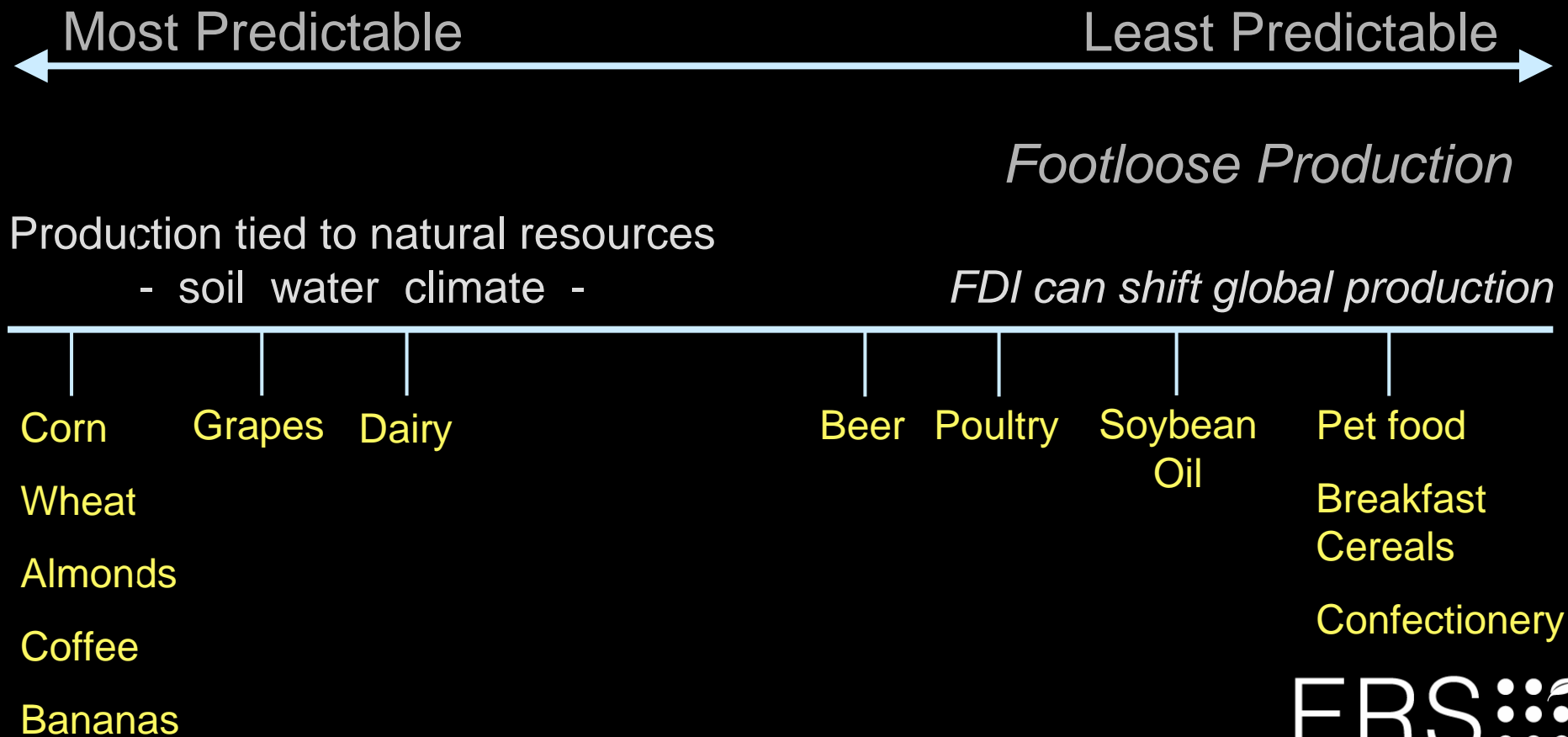


Why So Few Country Markets for High-Value Products?

- ***Trade Policy***
Market access for high-value products remains limited due to trade barriers; less so for bulk commodities
- ***Geography***
Distance between markets still matters
- ***Alternative to Trade***
Foreign direct investment (FDI)



Footloose Production Makes Long-Term Trade Patterns Less Predictable



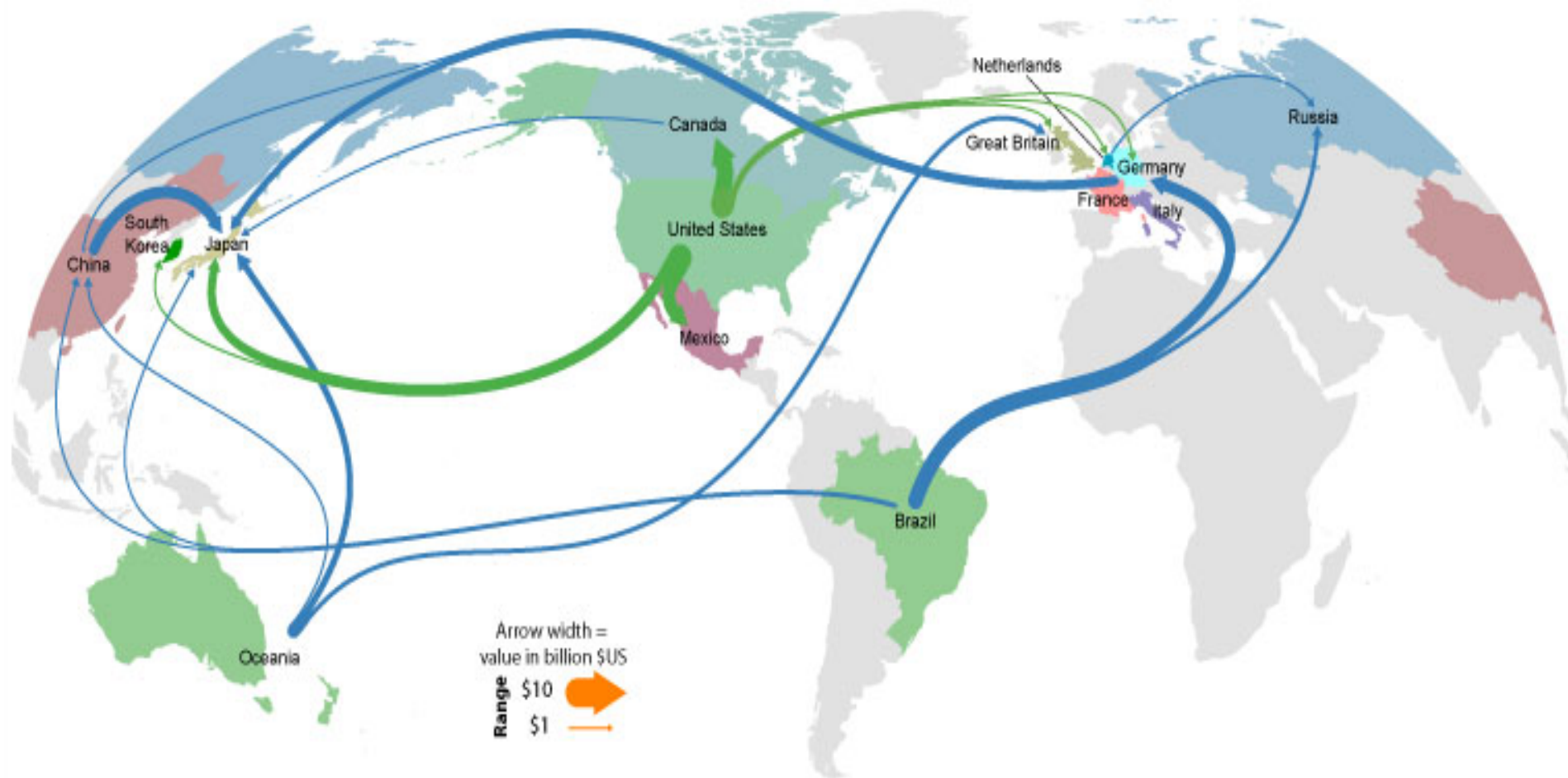


Increased Competition From Foreign Suppliers

- Brazil's exports of processed products nearly triple from 1994 reaching \$17 billion in 2004
- EU suppliers expand presence in Asia as brand awareness grows
- Processed foods and beverages most dynamic part of changing trade patterns spurred by new investment



U.S. Exports Facing Increased Competition: Major Trade Flows of Processed Food and Beverages in 2004





Expectations for Agricultural Trade

- In the past a growing agricultural surplus indicated strength in competitiveness, the bigger the better
- A sharp decline in the surplus often coincided with crisis on the farm - true in 1986 but not so in 2006
- The agricultural surplus today is at the same level as 1986 but the farm economy is healthy



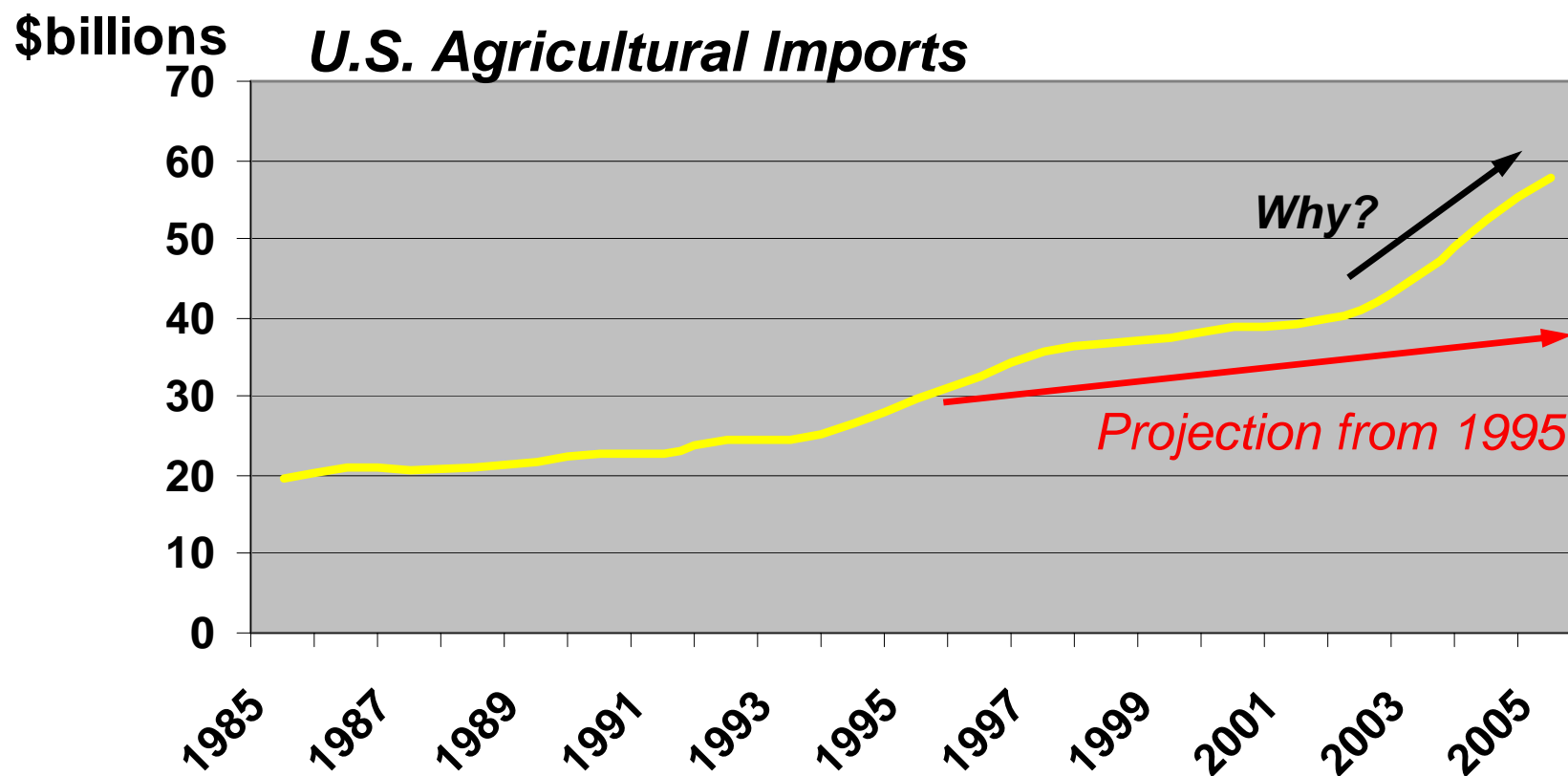
U.S. Agricultural Trade is a Two-way Street

Benefits of outbound trade not lost by inbound trade





U.S. Agricultural Imports Off Historical Trend



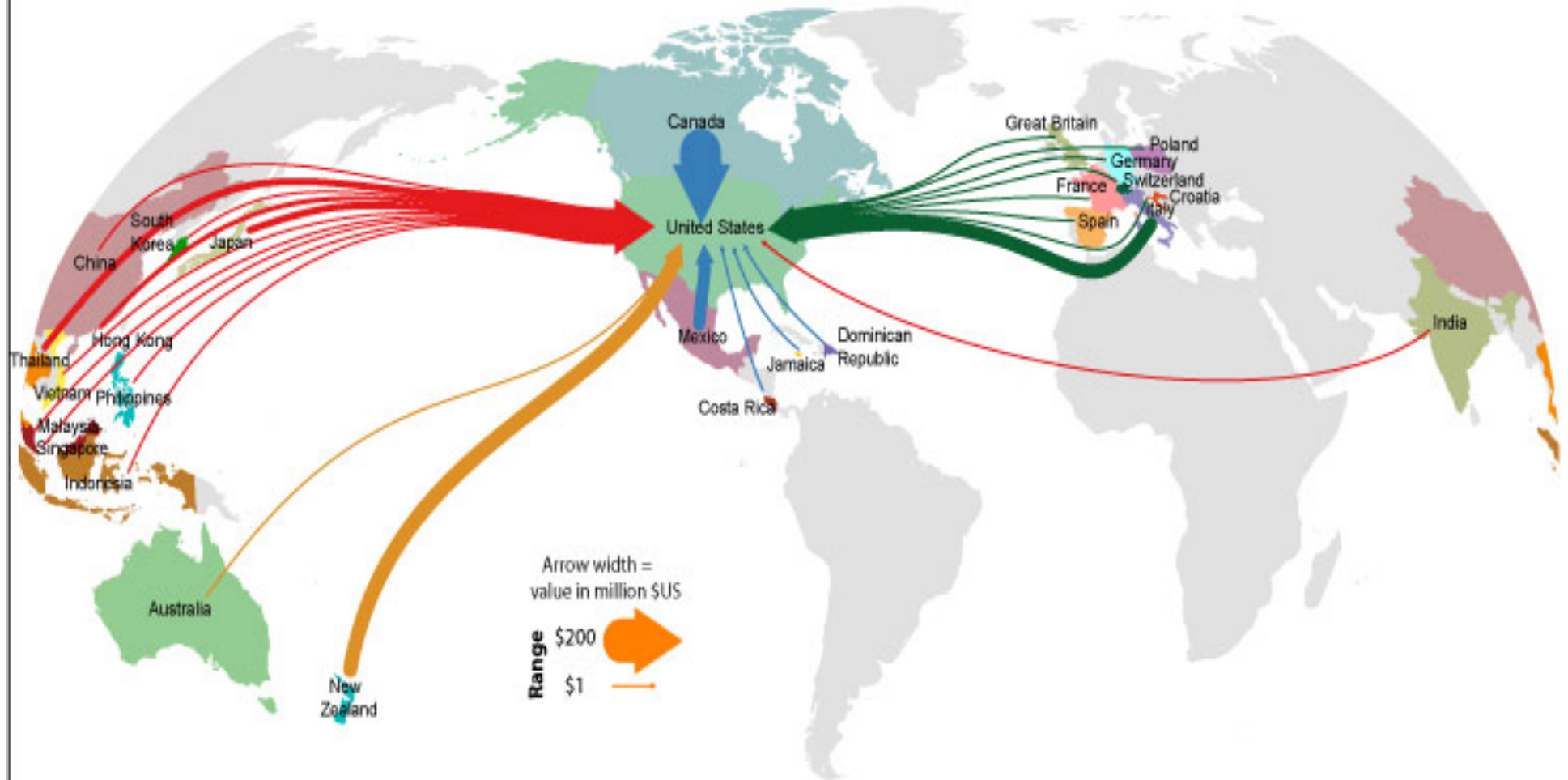


Imports Steadily Up But Faster Growth Recently

- Why steady?
If no domestic supply then consumption and imports track each other e.g. coffee, bananas, and cocoa
- Why faster growth recently?
 - Efficiency in global procurement logistics for supplying U.S. fresh horticultural market
 - Fast-food service demanding more low cost ground beef
 - Americans demanding variety (not cheap products) e.g. cheese, wine, confectionery, and sauces from many countries

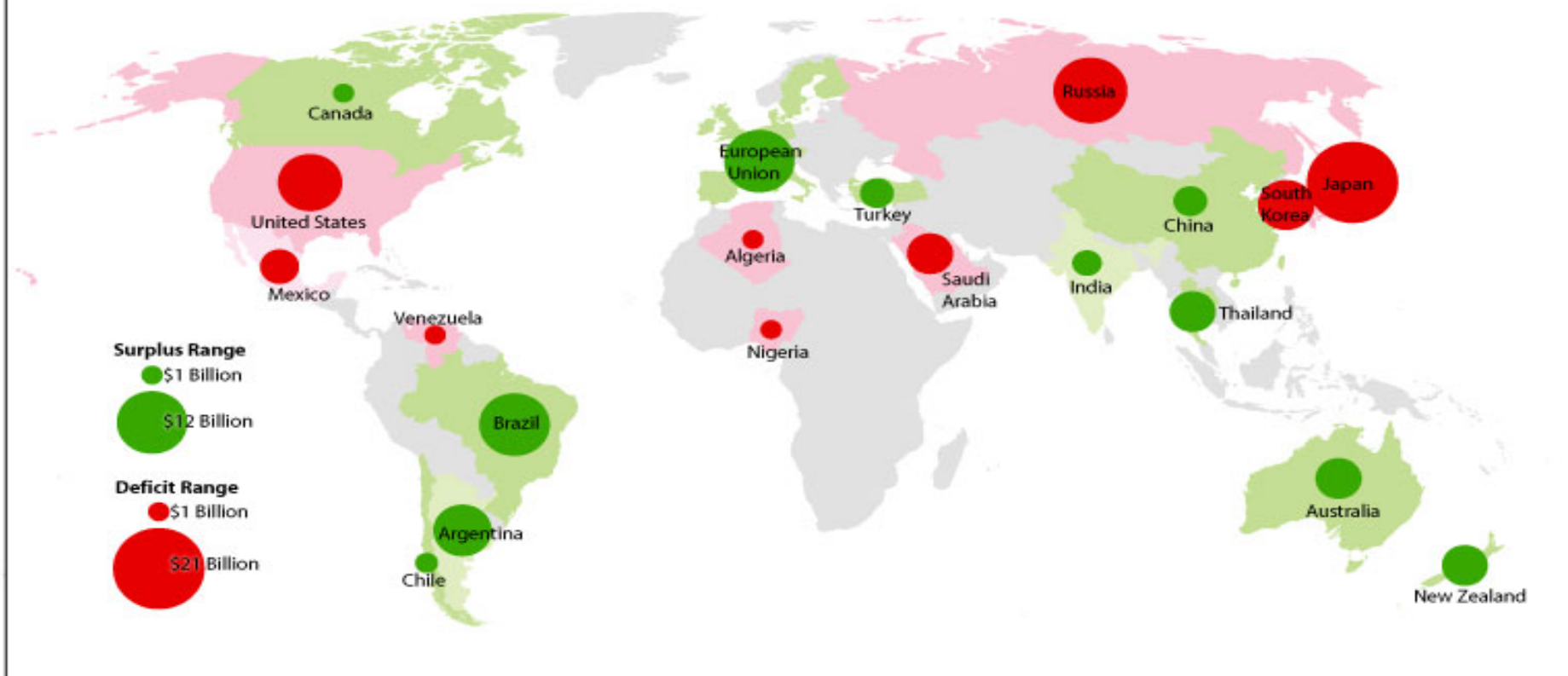


U.S. Consumers Demand Product Variety from a Multitude of Countries: Imports of Sauces and Condiments in 2004





Major Trade Surplus and Deficit Countries in Processed Food and Beverages in 2004





What Was Not Anticipated A Decade Ago?

- Big players of “emerging markets” are becoming major exporters
- Rapid foreign investment in processing and global retailing is shifting trade in sometimes unexpected ways
- U.S. import growth accelerating from all sources due to population growth and strong demand for greater variety



Summary

- Trade balance not an indicator of farm competitiveness; may go negative but U.S. farm sector can remain healthy
- Farm and food products moving in different directions
- FDI shifting footloose production in global food economy
- Market barriers and FDI can limit future growth in processed product trade